

Statement of
Joseph L. Walsh
Deputy Director
Iowa Workforce Development

before the
Committee on Ways and Means
Subcommittee on Income Security and Family Support
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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss the importance of the unemployment compensation system, and specifically the unemployment provisions of the American Recovery and Reinvestment Act.¹ It is a great honor personally for me to speak to you today about what is going on in our workforce system in Iowa. With the help of Congress, I believe our workforce system is on the verge of achieving tremendous accomplishments to strengthen our economy and improve the lives of working people. It is, however, crucial to thank frontline workforce staff for their dedication and sacrifices during this economic turmoil.

While I have the privilege of discussing these issues with you here today, it is the direct customer service workers from all across the country who are, at this very moment, going above and beyond to help ordinary workers through these difficult economic times. In Iowa, we have an incredible staff. They work long hours under stressful conditions and helplessly feel the pain of workers who are suffering job losses. Their work is frequently thankless and they are often on the frontlines of frustration and anger. In some cases, they fear for their personal safety. Yet, they know that if they do not get claims processed and problems resolved, families may go without a check. So they work a little harder each day. These folks are truly the backbone of our workforce system.

¹ For purposes of this statement, I am including the provisions of The Assistance for Unemployed Workers and Struggling Families Act as a portion of the ARRA.

In Iowa, we can only imagine how desperate our economy would be if not for the frontline workers in our unemployment insurance system and the recent help provided by Congress.

Economic Climate in Iowa

Iowa came late to the recession. Despite severe flooding through much of Iowa, our economy held strong through much of 2008. In March of 2008, Iowa's unemployment rate was under four percent and we were primarily concerned about the tightness of the labor market, which some labeled a "worker shortage." Even following the floods, our rates only increased to 4.1% in July 2008. By November 2008, we started to see significant upward movement in our seasonally-adjusted numbers. The rate has steadily continued to increase, reaching 5.2% in March 2009.

The decline in Iowa's economy coincided with our normal seasonal downturn, which has caused numerous, serious problems for the administration of our system. We saw record initial and continued claims, as well as record unemployment payrolls. Since November 2008, the number of initial and continued claims has roughly doubled from the same time period in previous years. In some areas of the State, the volume of traffic in our One-Stop offices more than doubled. At times, our system has experienced difficulty maintaining even minimum customer service standards.

The most disheartening statistic may be the number of individuals who continue to exhaust the various extensions of benefits offered by Congress. Iowa has historically been a "short-term" unemployment State, meaning our workers do not stay in the system for an extended period (less than 12 weeks). More than ever, workers are having significant difficulty obtaining employment in this economy and, therefore, have stayed on unemployment benefits longer than usual. Worse yet, to deal with the incredible volume of new and continued claims, more staff time has been spent dealing with claims and less time has been focused on helping unemployed workers find their next job. As of today, we have 86,729 unemployed workers receiving benefits through the Iowa system. The claims workload in Iowa is off the charts.

Extended Unemployment Compensation (EUC)

Through all of this, our staff has remained strong and remarkably dedicated. Iowa began paying emergency unemployment compensation (EUC) in July 2008. Because we are on a legacy

mainframe computer system, this was extremely difficult to program and implement, but our staff did it. The payment of EUC also caused some confusion in the general public which resulted in significant increased walk-in and telephone traffic. During 2008, Iowa Workforce Development paid out more than \$54 million in EUC. In the first quarter of 2009, we have paid out an additional \$34.3 million in EUC, for a total of \$88.3 million.

As a point of comparison, in the first quarter of 2009, Iowa paid out \$227.1 million in regular unemployment benefits. This is a record. In addition, we paid out an additional \$34.3 in EUC benefits for a grand total of \$261.4 million in a single quarter. These numbers are significantly higher than the same period of the previous year. In the first quarter of 2008, Iowa paid out just over \$136.6 million in regular unemployment benefits and, of course, EUC had not begun.

In addition, as of March 21, 2009, Iowa's insured unemployment rate reached 4 percent. Therefore, Iowa triggered Tier II (EUC) benefits. Since that date, we have paid \$6.3 million in Tier II benefits. The grand total of all of the various federal extensions from July 2008 to the present is nearly \$100 million.

The importance of these additional dollars to Iowa's economy is difficult to precisely measure. The only thing we can say for certain is that our economy would be far worse if these benefits had not been made available. How many home foreclosures were prevented because these benefits were extended? How many rent payments or car loan payments were made? How many bags of groceries and winter coats were purchased in local communities from local store owners? How many utility bills were paid on time? These extensions of benefits are going directly into Iowa communities. This fact should not be understated. These benefits are important not only for the workers, but for entire communities to survive this economic downturn. The question which must be asked is: Where would we be without this additional money coming in to our local economies?

Difficult Federal Requirements

While these benefits are incredibly important to Iowa's economy, I would offer one recommendation for future EUC legislation. The federal law requires that only individuals who had earned 1.5 times the high quarter were eligible for EUC.

This conflicts with the provisions in many states' laws, including Iowa's.

The result for Iowa, where we require that an individual earn 1.25 times the high quarter, is a major administrative headache. By the federal legislation, Iowa is required to recalculate every claimant's eligibility based upon the new formula. Approximately 871 Iowa claimants were denied EUC, even though they had been eligible for regular benefits. These Iowans, in my opinion, reasonably did not understand why they were not eligible for the additional compensation. It is impossible to determine how many have been affected by this nationally.

Iowa Workforce Development respectfully submits that this is both extremely inefficient and unfair to workers. A better method would be to allow states to determine the eligibility criteria consistent with their current law in order to avoid unnecessary redundancy in eligibility calculations. It is simply not a value-added service to require recalculations of this sort, particularly when so many states are on computer information systems which are not flexible.

Like every other hurdle they have faced, the staff at Iowa Workforce Development managed this obstacle admirably and ensured that EUC was paid timely and as efficiently as possible. Similarly, we quickly moved forward with the additional \$25 payments, which was included in the American Recovery and Reinvestment Act (ARRA).

Federal Additional Compensation Payments (\$25)

The ARRA was passed on February 17, 2009. On February 18, 2009 Governor Chet Culver signed an agreement with the U.S. Department of Labor to begin the additional \$25 per week payments. Payments were commenced for the week of February 22, 2009. Since then, unemployed Iowa workers have received a total \$13.1 million in \$25 federal additional compensation payments. This is roughly \$1.82 million per week that is making its way in to local Iowa economies. It is almost certainly the first federal stimulus money which actually "hit the streets."

Despite a great deal of initial administrative consternation and concern (again mostly in computer programming), these payments have generally been made with little difficulty. It should be noted that there was a great deal of programming time spent up front, again to deal with the

lack of flexibility in our legacy mainframe computer system. Our IT staff worked long hours to ensure the success of this program.

The additional \$25 obviously provides an immediate and real stimulus to both workers and our local communities. It should be remembered that weekly unemployment benefits will not pay the bills for the average Iowa family; it is only a temporary “stopgap” measure to prevent an unemployed worker’s financial hemorrhaging. The maximum amount a single person can receive under Iowa law is \$361, which is adjusted up only slightly for individuals with dependents. The average Iowa claimant in 2008 received around \$288 per week. Most Iowans cannot survive on this for an extended period of time and the longer a person stays on it, the harder it becomes to survive. The addition of the \$25 provides an immediate and direct stimulus to local communities and gives families who are really suffering a little help.

Importance of Administrative Funding

It is important to note that, between the UI administrative provisions of the ARRA and the normal contingency funds provided by U.S. Department of Labor, Iowa has received a significant amount of additional funding to administer the unemployment system. This is critical at this point in time.

Historically, our system is underfunded and under-built. During a time of economic crisis, low staffing exacerbates many of the problems I have tried to outline above. In some of our high-volume offices, customers have had to wait in excess of two hours. Telephone wait times have been both frustrating and depressing. On occasion, families who need these benefits the most have been forced to wait for an unacceptable length of time to receive their first checks. This is certainly not because our staff is not passionate about what they do; it is solely and simply due to the fact that we do not have enough staff to meet the demand. Since October 2009, workers in the Unemployment Insurance Service Center have collectively worked over 3,468 hours of overtime. IT staff have logged over 4,000 hours of overtime during this period.

As I mentioned previously, with the majority of our staff and resources focused on processing claims and answering the plethora of claims-related questions, our One-Stop centers have had far less time to deal with helping unemployed Iowans get off unemployment and find their next job. Even during this time of

economic crisis, our State job bank, iowajobs.org, has approximately 13,000 job openings posted. Many Iowa employers are still expressing the need for skilled workers in a variety of positions.

Periods of economic instability can provide opportunities for both employers and workers. Employers frequently improve efficiency during periods of economic turbulence while workers often find more suitable job matches. The role of the workforce system is to help employers and workers effectively manage these economic downturns and lessen the negative economic impact.

Additional administrative dollars have allowed Iowa Workforce Development to begin the hiring process for an additional 54 jobs statewide to help ease the claims burden so that minimum customer service standards can be met and more staff can focus on helping Iowans find their next job. The result will be better service to Iowans who really need the help.

These administrative dollars are absolutely crucial at this point in time. While the number of claims has only doubled, the administrative problems created with extended benefits, Tier II, additional payments and other federal mandates, has increased exponentially. It is a breath of fresh air that Congress and the President have recognized the need for increased administrative funding during this economic downturn as this has not always been the case.

Unemployment Insurance Modernization

The most significant unemployment provisions of the ARRA came in the form of the Unemployment Insurance Modernization Act. This legislation provides significant Reed Act funding - for Iowa almost \$71 million - for states which pass progressive reforms to their unemployment laws designed to bring state systems into the modern era.

Iowa Workforce Development proposed a state-level modernization act in 2008 even before the federal legislation had passed. It passed the Iowa State Senate, but failed in the House on the last night of session in 2008. In Iowa, we focused primarily on two of the reforms: (1) extended benefits for

workers in high-demand training programs and (2) alternate base period.²

Investing in Workers

The genesis of IWD's push for extended benefits for workers in demand training can be traced back to Iowa's shortage of skilled workers. Simply defined, the problem is this. Iowa's population growth has been stagnant or declining in recent years. The projections suggest that the best Iowa can hope for is to not lose population over the next twenty years, but many projections show Iowa losing workers. In the meantime, until the recession, employers were creating 2,500 jobs per month. Significant job creation combined with stagnant or declining population has created very tight labor markets in recent history.

The bigger and more immediate problem is that workers frequently do not have skills that match the needs of employers in their communities. As traditional manufacturing jobs leave the state and country, workers are left with skills that are best suited for dying (or already dead) industries. The high-demand, high-wage jobs of the future, in fields such as advanced manufacturing, information technology, energy and healthcare, require more education, training and skills.

Obviously, the tight labor markets have loosened up as unemployment has risen dramatically. The shortage of skilled workers, however, is only exacerbated in this declining economy. More workers are being displaced from traditional or old-style manufacturing jobs. To the extent that good paying jobs exist at all, they require higher skill levels and they are in different industries.

Director Elisabeth Buck and I took our leadership positions at Iowa Workforce Development in August 2007. Since we were both outsiders to the agency, we decided to take the opportunity to conduct a "listening and learning tour" for the first 100 days. We traveled to every region of the state and listened to employers and dislocated workers. Without fail, in every region of the state, employers told us that they could not find skilled workers to meet their demand. Similarly, in every region of the state, we met dislocated workers who were victims of declining

² The third element of the bill involved the part-time worker provisions. Essentially, Iowa merely codified its long-standing practice of allowing benefits for part-time workers for compliance. This was not a major breakthrough, but merely a codification of existing law.

industries and unfair foreign trade who did not have the skills to go back out in the competitive job market and obtain a decent wage. We met many workers who had begun in educational programs to obtain further education, but had to dropout because they did not have the financial means to continue once their unemployment was exhausted.

It quickly became apparent to us that Iowa needed to make a significant investment in lifelong learning for its workers. It was also immediately apparent to us that the unemployment system needed “modernized” in that the existing model did not account for allowing or helping workers who were leaving declining occupations, an opportunity to obtain demand skills.

Extended Training Benefits

The Unemployment Insurance Modernization Act provided the perfect vehicle for significantly investing in Iowa workers. Iowa’s law, Senate File 197, was drafted to allow up to an additional 26 weeks of benefits for any worker who seeks training in a high-demand or high-tech occupation. Simply stated, the law was drafted to give workers a chance. We live in a competitive, skills-based economy. A worker’s only job security in the new economy lies in their skills. This reform gives industrious workers an opportunity to better their lives through education.

Iowa Workforce Development anticipates that as many as 1,900 workers in an average year will take advantage of extended training benefits to improve their skills in fields such as information technology, healthcare, energy and wind power and advanced manufacturing. Iowans like Melissa Paulson will have a fighting chance to improve their lives. Melissa is a single mother of two from Huxley, Iowa with a high school education. She was laid off from Pella Windows in Story City in the spring of 2008. This was an excellent job with benefits. She was helped by Iowa Workforce Development and DMACC through our Rapid Response dislocated worker program. She started back to school in August 2008 in a program called Industrial Electromechanical Technology. Between the federal extensions and the extended training benefits, thousands of workers like Melissa will have a chance to better themselves and their families.

Alternate Base Period = Stimulus

The second provision Iowa focused on was the alternate base period. To us, this was a matter of simple fairness.

Unemployment compensation is not a welfare program. It is an insurance program. One of the eligibility criteria is that a worker must show an attachment to the labor force. In Iowa, this is demonstrated by proving that the claimant has earned wages in two out of the most recent four quarters, excluding the most recent full quarter (also known as the "lag quarter.")

The only reason the lag quarter is excluded is because it is difficult to discern a claimant's wages for the most recent full quarter. Specifically, it was far more difficult to make such a determination back in the 1930's when the law was first written. While our electronic system is not perfect, it is much easier to make such determinations in 2009 compared to 1939. As our technology continues to improve, there will eventually be no barrier to accessing this information almost instantly.

As a simple matter of fairness, Iowa Workforce Development sought to acknowledge the lag quarter in instances where the worker did not meet the criteria during the regular base period. This will allow more workers to become eligible for benefits in the quarter they first become unemployed. In the current economy, this should have an incredible stimulative effect.

Iowa Workforce Development estimates that 5,500 workers will become eligible for benefits using the alternate base period in an average year. Estimates demonstrate that there will be a significant cost to this, but it must be remembered that these are individuals who will become eligible for the benefits. In other words, more than costing additional money, the alternate base period mostly speeds up the payments to individuals who would otherwise have to wait until the quarter change to begin on benefits. Our information suggests that these individuals are often the poorest workers in our system. They likely have limited savings or other resources. In essence, they are the least likely candidates to survive until the quarter change. It also seems to disproportionately affect mothers who have spent time out of the workforce caring for children, students and other groups who have had occasion to be out of the workforce for extended periods.

A Strong, Progressive Coalition

Iowa is proud to be the first State in the country to pass all of the provisions of the Unemployment Insurance Modernization Act into law. Iowa was able to accomplish this because we had proposed this legislation, and pursued it vigorously in 2008, even before the federal legislation had

passed. We had educated local legislators and interest groups and laid a foundational framework. We built a strong coalition of workforce system partners, community colleges, organized labor and business groups. Senate File 197 passed the Iowa Senate 47-0, with unanimous bipartisan support. It then passed the House 84-13, again with bipartisan support.

In the end, the Reed Act distribution was the key to obtaining such widespread support and particularly that of the business community. While Iowa Workforce Development does not issue official projections, it is apparent that the State is likely headed for a unemployment tax table increase based upon the record payout of benefits. The only possible way to avert or minimize such an outcome is to have an infusion of dollars into the fund. The Reed Act funding accomplished this. These funds were ultimately a key component to obtaining support of business groups and bipartisan legislative support.

Conclusion

I want to thank you for your support of the workforce and economic security system. The changes you have made have strengthened our system and helped to empower frontline workforce professionals to assist workers and their families through this crisis in a meaningful way. I have greatly appreciated the opportunity to share my thoughts with you.